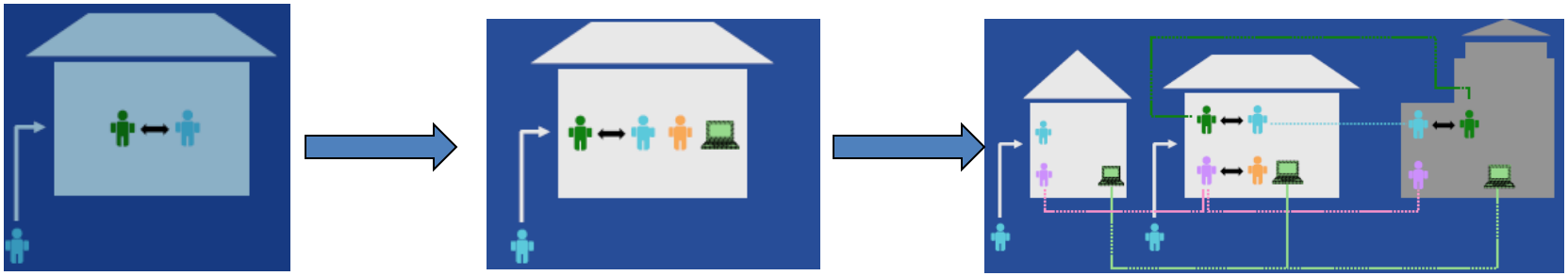


Patient Centered Medical Home Work Group

Payment and Performance Measurement: Issues In Identifying An Approach

June 19, 2009

Draft

Starting Assumptions

Market and political realities will necessitate action on delivery system reform before evidence is available to determine the optimal course of action.

Adopting PCMH in the context of no more healthcare resources and an economic downturn. PCMH's will require considerable up-front capital investments and ongoing costs that will require infusions of money.

Demonstrations point to payment reform that rewards primary care work beyond face-to-face visits or procedures, typically adding a bundled care management fee of some kind and some form of pay-for-performance bonus.

These are common themes, but significant differences in payment model specifics or level of development

Agenda

- Challenges of arriving at payment formula
- Arriving at recommendation for payments to a PCMH
- Alternatives for measuring performance of an PCMH
- Plans for reaching concensus

Possible short term savings from PCMH adoption

- Decreased redundancies,
- Decreased medical errors,
- Decreased emergency department visits and hospitalizations for ambulatory care sensitive conditions,
- Decreased rehospitalizations for patients recently discharged, and prevention of costly complications.

- Focusing on short-term gains is tempting, but in the end may prove foolhardy.

Payment Approaches in Existing Pilots

FFS +Care Management Fee

- Per-patient per month/practice/year
- Usually in addition to fee-for-service
- Linked to PCMH capabilities, not outcomes
- Generally unadorned – rare adjustment for performance or case-mix
- Covers services beyond FFS and care coordination of mid-level health providers .
- Used by most pilots

Fully Capitated Payment

- PMPM linked to PCMH capabilties
- May not be permitted in PPOs (MIA seeking clarification)
- Better opportunity to align incentives
- Negative connotations among Maryland practices

- Performance payment would work with either model.

Constraints on Reimbursement – Budget Neutrality and PayGO

Carriers can be tempted to target budget neutrality in setting payment rates because of lack of data on costs of PCMH services, fiscal pressures, purchaser resistance but…

- Equally rare data on potential savings
- Each PCMH service has a different cost and potential savings
- Payments must be sufficient to ensure physician participation
- "Zero-sum" initiatives will generate more opposition from providers not getting PCMH payments
- Early "deficits" may smooth the way toward longer lasting corrections of fee-for-service distortions and broader payment reform
- May be reasonable for mature programs with refined understanding of effective features of PCMH to target budget neutrality

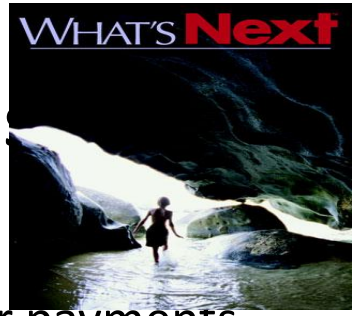
Approaches to arriving at Payments

- Estimate potential savings from PCMH (ED services, hospitalizations, redundant testing)
  - Offset by increased desirable spending (preventive services, primary care)
- Look at actual costs for providing the services at 'reasonably efficient' practices.
  - A major challenge is cost management systems at most small practices are crude
- Pure guesswork, but can place upper bound on payments
- Pay-as-you-go approach of payment through shared savings only
  - Requires extensive data gathering
  - Generally will create recruitment challenges
- Private sector models assume very low PMPMs, but include entire patient panel.
- Medicare PMPMs are risk adjusted and are limited to the chronically ill Medicare population.

Challenges for practices

- Costs of acquiring PCMH capabilities can't be considered only on a per-patient basis.
- Percentage of patients in a PCMH's panel covered by PCMH payments.
- Can a practice recover investment costs and operating costs for a time-limited pilot?
  - Government stimulus HIT financing is a plus
- Lack of risk adjustment could pose problems for practices with sicker or older patient populations.
  - Reimbursement structure should not discourage the very practices that are treating patients that would be well served in a Medical Home.

Approach to moving forward on payment



- Convene a subgroup of payers and others to discuss options for payments.
  - Mixed model – FFS/PMPM/reward structure
  - Fully capitated model
  - Gaining sharing models

- Report back to the Work Group in about a month
  - Appraise the evidence and compare results